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CIA-RDP89G01321R000800180002-4

Attached for your background information  
is material (in talking point style) that  
provides an update on developments in  
Panama and Nicaragua.

[Redacted]

STAT

16 June 1988

Date

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## TALKING POINTS FOR THE DCI

## PANAMA

## Noriega's Political Position and Next Moves

Defense Chief Noriega remains firmly in command following the collapse of negotiations with the US and is keeping all his political options open.

- Noriega's support base remains intact; in fact, a number of regime officials have proposed Noriega run for president.

- [redacted] Noriega is prepared to pursue his conflict with Washington, but is also willing to engage in further talks, directly with the US or through Latin mediators, to resolve the crisis.

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- Various efforts by Latin American leaders to mediate a resolution of the crisis have stalled and are losing momentum. Former Venezuelan President Carlos Andres Perez and other Latin leaders who supported his tentative initiatives are beginning to back off because they fear that Noriega has grown too strong and is not committed to serious negotiations. [redacted]

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Noriega, in order to divert attention from the issue of his tenure as Defense Chief, is trying to focus domestic debate on the presidential elections now scheduled for spring 1989.

- Although he has publicly appealed to the political parties to begin planning for the elections, [redacted] Noriega also is considering delaying them through a national plebiscite.

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- Noriega probably calculates that such a delay would give him more time to develop a sufficient power base either to launch a run for the presidency or ensure his pre-selected candidate wins. [redacted]

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## Economy Still Troubled

Private banks' liquidity has improved and the public has accepted government checks as a de facto currency for now; but the regime still faces daunting financial problems.

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- Government officials privately admit the regime is operating on a day-to-day basis financially and they are unsure how future payrolls will be met.
- The regime has received as much as half of the promised \$20 million loan from Libya. It is unclear, however, how much of this amount has been transformed into cash and delivered to Panama.
- The government is considering harsh austerity measures, including massive layoffs of public employees, to address its deepening budget crisis, and these steps are likely to further erode living standards. [REDACTED]

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Although commercial activity has rebounded somewhat in recent weeks, Panama's overall economy remains mired in a slump caused by continued banking restrictions, lack of credit, and US economic sanctions.

- US companies uniformly report that their sales are off by 30 to 80 percent, according to the US Embassy, and IEEPA restrictions prohibiting the payment of import taxes has left them unable to replenish inventories.
- In late May, the regime's Planning Minister issued a report predicting that, unless the crisis ends soon, economic activity could plummet by as much as 20 percent this year. [REDACTED]

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### Military Developments

Noriega is flexing his military muscle to signal his resolve and prepare Panama in anticipation of a possible US military intervention.

- Panamanian troops last week simulated the seizure of old Albrook Air Force Base using airborne forces despite a warning that Washington would view the exercises provocative. Noriega reacted angrily, however, upon discovering that Panamanian officers had given the US Southern Command advance notice of the exercise, demonstrating his desire to send the US a strong signal.
- The Defense Forces and paramilitary groups continue to train in insurgency tactics. Noriega, however, is carefully limiting distribution of arms to civilian supporters and maintaining tight control over their activities to avoid heightening military concern about leftist activities. [REDACTED]

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[REDACTED] greatly increased nonscheduled cargo flight activity between Cuba and Panama began in early May, with a marked increase after the breakdown of US-Panamanian talks on 25 May.

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- Since 5 May, there have been some 20 flights, with 13 occurring after negotiations ended, carrying at least 174 metric tons of unspecified cargo.
- We judge that much of the cargo may be military supplies, including small arms and ammunition, rocket-propelled grenade launchers, and mortars.
- The sheer size of the shipments [redacted] suggest that non-military material may also be part of the cargo.
- Several references in Panamanian military communications suggest that the Panamanians also may be in the process of acquiring additional howitzers and more advanced antiaircraft weapons. The latter possibly could include shoulder-fired surface-to-air missile launchers which would significantly boost Panamanian capabilities against low-flying aircraft. [redacted]

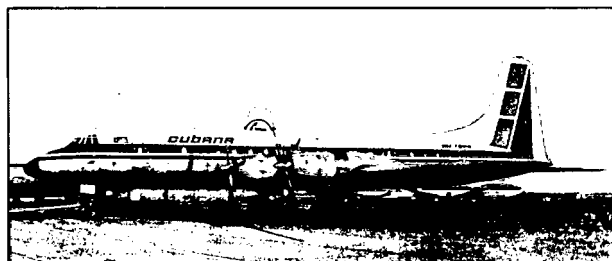
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**Cuba-Panama: Cargo Flight**

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**BB-318 Britannia**



Range: 8,600 km

Maximum payload: 16.0 metric tons (mt)

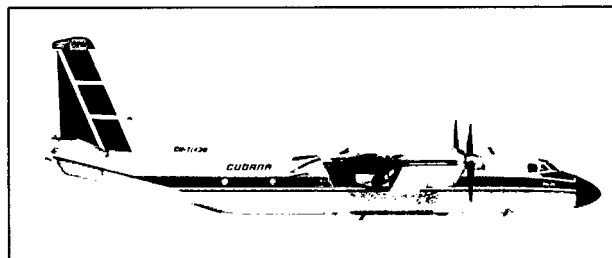
**Boeing 727**



Range: 4,260 km

Maximum payload: 18.0 mt

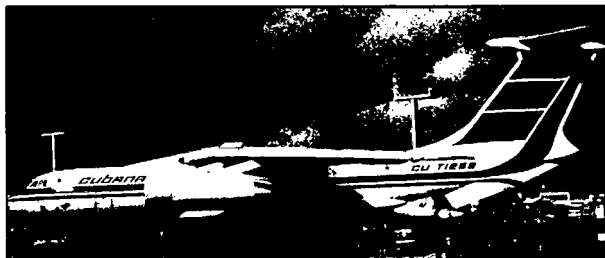
**AN-26 Curl**



Range: 2,500 km

Maximum payload: 5.5 mt

**IL-76 Candid**



Range: 6,700 km

Maximum Payload: 48.0 mt

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## TALKING POINTS FOR THE DCI

## Nicaragua

The Sandinistas have put strict limits on internal opposition activity to ensure that it does not fundamentally challenge their power.

- The regime uses a variety of legal restrictions to curtail freedoms of expression and assembly. Managua has suspended several independent radio newscasts, and government-controlled mobs, the notorious "turbas," have broken up demonstrations.
- The Sandinistas have consistently quashed activities that link the internal opposition to the rebels or focus attention on sensitive issues like the draft and the economy. They have detained politicians who met with rebel leaders and warned journalists not to use certain terms, such as "economic crisis".
- The Sandinistas probably would respond to foreign pressure to liberalize by making a few dramatic concessions that play well abroad but are not regime-threatening. Managua is likely to avoid cracking down harshly on its opponents unless they start cooperating closely with the rebels or their activities spark growing popular discontent.

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Meanwhile, combat activity in Nicaragua has picked up in recent weeks, and Managua is positioned to launch major military operations if the cease-fire process collapses.

- There have been several clashes in the last few weeks, including at least five between 8 and 11 June. skirmishes continue in northern Nicaragua.
- The Sandinistas also have aggressively deployed reconnaissance patrols to monitor rebel movements, fortified their positions near rebel operating areas, and put key Air Force officers on alert.

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The Sandinistas' defense buildup puts them in a more advantageous position should fighting resume.

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- Managua probably would launch sweep operations within Nicaragua to push more insurgents into Honduras and block reinfiltration efforts.
- An incursion into Honduras appears less likely due primarily to the Sandinista fear of rekindling US lethal support and the relocation last month of rebel troops and materiel away from the border at San Andres de Bocay.
- Large-scale hostilities may not resume immediately, however. Both sides have pledged to continue to observe the cease-fire. Moreover, the onset of the rainy season this month has begun to hamper military operations.

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On the rebel side, exfiltration to Honduras continues, raising Honduran concerns over their presence.

- Over 11,000 rebel personnel were in Honduras as of 7 June
- Insurgent plans for a large-scale reinfiltration reportedly remain on hold because Honduras is refusing to release rebel munitions under its control. Tegucigalpa fears armed insurgents would refuse to return to Nicaragua without a firm guarantee of US support.

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